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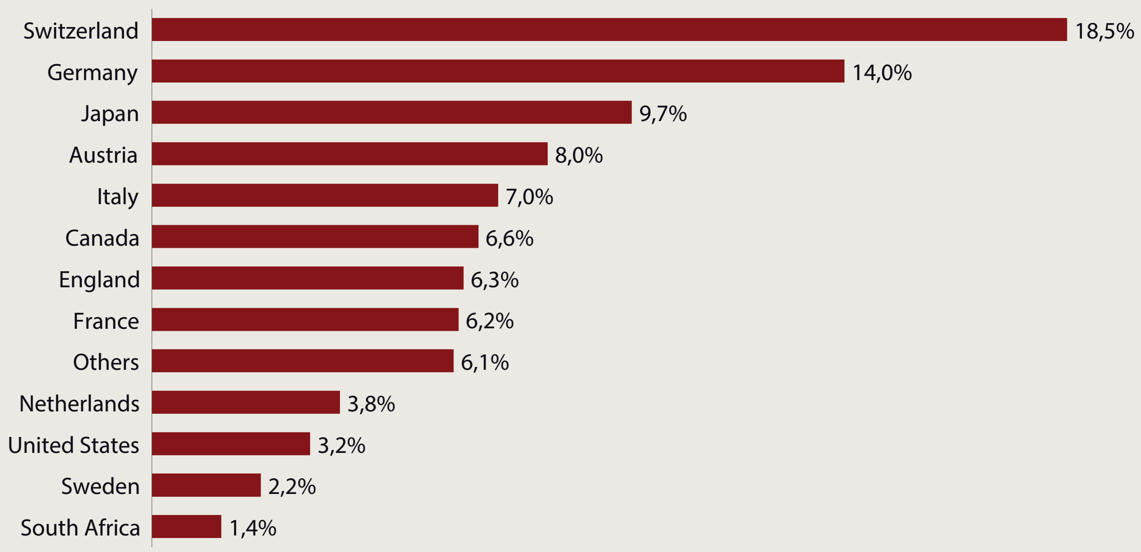
No. 1: When market value trails behind – and leads to the wrong decisions

The market values calculated for properties by appraisers are based on previous effective transactions. The very nature of this action means that the values trail actual market events, and that is not a fault of the appraiser.

According to an analysis by MSCI (ex IPD), the effective sale prices in Switzerland in 2017 were on average 18.5% above the market values calculated by appraisers. MSCI captured the majority of the institutional market for this analysis. Based on the value found, Switzerland has the greatest discrepancy of all the countries studied.

Discrepancy between effective sale prices and market values in



Source: MSCI

An unconsidered orientation towards the market values calculated by appraisers can therefore lead to mistaken decisions. For example, if an investor bases its decisions to sell on appraiser-determined market values that are too low for the applicable time, the investor may believe that it has reaped satisfying profits (on paper). However, that investor is actually selling properties below their real economic value and actively reducing their value. For a more thorough discussion of the issues associated with these accountant-created realities caused by behavioural economics, read Thomas Walter master's thesis from 2013 (download at www.curem.ch).

Anyone wishing to purchase must be willing to pay a price that all other stakeholders – including appraisers – see as too high. That is why successful real estate investors have learned to make their decision-making only to a limited extent dependent on expert-determined 'market values'. To do this, however, internal valuation expertise is essential.

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